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SUBJECT: VENEZUELA: VENAMCHAM SAYS SITUATION WORSENING

REF: CARACAS 1062

Classified By: Economic Counselor Darnall C. Steuart, for reasons 1.4 (b) and (d)

11. (C) SUMMARY. On August 17, the Ambassador attended the monthly meeting of the governing Executive Committee of the Venezuelan American Chamber of Commerce (VenAmCham). Following their normal business, the Executive Committee members, all Presidents of leading corporations, briefed the Ambassador on recent events in their sectors. A leading economist predicted economic contraction in the second semester while the President of Cargill de Venezuela said bluntly that Argentina does not have enough beef or wheat to meet Venezuelan market demand notwithstanding recently signed agreements. (see reftel.) VenAmCham's legal counsel touched on the accelerating pace of legislative change and underlined that the Urban Land Law, passed in the early morning hours of August 14, could represent an assault on the basic concept of private property. A leading pollster characterized the situation in Venezuela as "very fluid" with rising inflation, growing food scarcity, insecurity, and a looming breakdown of the national health system. END SUMMARY.

LEGISLATIVE UPDATE

12. (C) VenAmCham Legal Counsel Farid Antakly briefed the Ambassador on the accelerating pace of legislative change. Touching first on the Electoral Law signed into law on August 12, Antakly underlined that the law will allow gerrymandering at will by the government. Antakly then turned to the Education and Urban Land Laws which were passed by the National Assembly in the early morning hours of August 14. Antakly underlined that the quick passage of the Education Law, followed by its ratification by President Chavez in a public event on Saturday, August 15, and the unprecedented publication of the law in a Saturday edition of the Official Gazette, demonstrated careful planning by the government. In discussing the troubling points in the law, Antakly pointed particularly to the role assigned to Community Councils ("Consejos Comunales") as well as the vaguely worded articles touching on the educational role of the public media. Turning to a discussion of the Urban Land Law (which has still not been published in the Official Gazette), Antakly characterized it as a full frontal assault on the concept of private property which might ultimately affect land inheritance. Other Committee members commented that the law's reservation of public spaces to the government could also signal a coming assault on freedom of assembly.

13. (C) Pedro Palma, President of leading economic consulting firm Metroeconomía, briefly noted that he foresees a "complicated" second semester for the Venezuelan economy. After a decrease in the growth of inflation in the first half of the year, Palma said it is once again rising. Palma pointed particularly to increasing food inflation which will affect the poor. He speculated that food inflation should be as much as 15 percent higher than the official number because of the disproportionate weight given by government statisticians to food purchases from government-controlled programs such as the Mercal. Palma added that wages have fallen some eight percent year over year and that contracting demand will lead to an economic contraction in the second semester.

14. (C) On the issue of food imports from Argentina, President of Cargill de Venezuela Robert Moro said shipping time from Argentina is normally ten days. In certain circumstances, he said, it could be cheaper to buy from Argentina than Colombia, because the freight costs could be cheaper for items shipped in bulk. Moro added emphatically, however, that Argentina does not have excess beef or wheat supplies to meet Venezuelan market demand. He speculated that Venezuela would ultimately have to turn to Brazil or Mexico to replace Colombian supplies if that remains the GBRV's plan. Nor, he said, given the experience that Argentine companies have already had with Venezuela's foreign exchange board CADIVI, is there any appetite for exporting products to Venezuela for sale in bolívars. Moro speculated that the two governments would set up a government-to-government sales mechanism.

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15. (C) Touching on the banking system, Banco Mercantil President Gustavo Marturet said that the banking sector is "calm," but with high liquidity in bolívars. Other observers pointed to the lack of efficiency in the oil sector as well as the worsening labor situation in government owned companies.

16. (C) Finally, Pollster Edmond Saade characterized the situation in Venezuela as "very fluid" with rising inflation, growing food scarcity, insecurity, and a looming breakdown of the national health care network. The government's standing is being affected by these problems but Saade discounted the possibility of an effective government response. He noted that there is little visibility on the part of the opposition; with many Venezuelans on vacation there has been no "important" reaction yet to the barrage of legislation recently passed by the government. Saade commented that he believes the only possible challenge to Chavez will come out of the ranks of Chavistas with Lara Governor Henry Falcon as a possible candidate.

7 (C) COMMENT: VenAmCham Executive Committee members were eloquent in their description of Venezuela's continued economic decline. The members also, however, discussed how the Chamber is reaching out to provide legal assistance to at-risk members (for instance, to radio stations recently ordered off the air by the government) and taking initiatives such as the formation of a Task Force on the Rule of Law. VenAmCham has reached out to other binational chambers and is lobbying for joint approaches to the government on issues of common concern. In sum, the Chamber is working hard to provide value for its members.

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